

Message Text

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ACTION EUR-12

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SIL-01 PA-01 PRS-01 L-03 H-01 /086 W
-----201453Z 115499 /43
R 201353Z JAN 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 9882

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 0561

E.O. 11652: GDS
TAGS: EINV, PO
SUBJECT: ITT INVESTMENT IN PORTUGAL

REF: A) LISBON 8492 (1976), B) LISBON 0296

1. ITT VICE PRESIDENT LUKE RETURNED TO PORTUGAL TO CONTINUE HIS NEGOTIATIONS JANUARY 18. FOLLOWING MY DISCUSSION WITH PRIME MINISTER SOARES (REFTEL B) EMBASSY HAS REQUESTED APPOINTMENT WITH MINISTER OF INDUSTRY SOUSA GOMES. WHEN LUKE ARRIVED ACCOMPANIED BY EMBASSY COMMERCIAL ATTACHE HE WAS RECEIVED ONLY BY SOUSA GOMES' SPECIAL ASSISTANT MOURA VINCENTE, WHO HAD DEALT PREVIOUSLY WITH THE ITT NEGOTIATIONS, AND BY SECRETARY OF STATE FOR LIGHT INDUSTRY TRIGO DE MORAIS. MOURA VINCENTE SAID NOTHING AND TRIGO DE MORAIS PROFESSED HE KNEW NOTHING ABOUT THE PROBLEM AND COULD ONLY STUDY IT. LUKE CONSIDERED THE MEETING NOT ONLY FRUITLESS BUT INSULTING, PARTICULARLY IN LIGHT OF A LETTER MOURA VINCENTE HAD EARLIER SENT TO ITT PRESIDENT GENEEN IMPUGNING LUKE'S NEGOTIATING CREDENTIALS.

2. CONSEQUENTLY I ARRANGED APPOINTMENT AND ACCOMPANIED LUKE IN MEETING WITH PRIME MINISTER AND MINISTER OF
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INDUSTRY SOUSA GOMES JANUARY 19. SOARES AND SOUSA GOMES BOTH APOLOGIZED FOR WHAT THEY UNDERSTOOD (FROM ME) HAD BEEN ABRUPT TREATMENT ACCORDED LUKE PREVIOUS EVENING. SOUSA GOMES SAID HE UNFORTUNATELY HAD BEEN TIED UP IN ECONOMIC SESSIONS ALL DAY BUT THIS DID NOT MEAN GOP WAS NOT CONCERNED WITH ITT PROBLEMS. (WE SUBSEQUENTLY LEARNED THAT SOUSA GOMES HAD BEEN TIED UP IN DIFFICULT MEETING WITH

WORLD BANK MISSION). TO CONTRARY, BOTH HE AND SOARES HOPED TO FIND A FORMULA UNDER WHICH ITT COULD CONTINUE TO OPERATE IN PORTUGAL.

3. AFTER DESCRIBING ITT HISTORY AND ITS PROBLEMS IN PAST THREE YEARS, LUKE SAID HE WAS PREPARED TO NEGOTIATE ANY ONE OF SEVERAL SOLUTIONS. IF GOP FOUND IT EMBARRASSING TO HAVE ITT CONTINUE IN PORTUGAL, HE WOULD ACCEPT GOP PURCHASE OF ITT \$55 MILLION ASSETS WITH PAYMENT IN 20-YEAR PORTUGUESE DOLLAR BONDS. IF GOP DESIRED, ITT COULD THEN RETURN UNDER A MANAGEMENT CONTRACT TO OPERATE THE COMPANIES.

4. LUKE SAID ITT HAD A QUICK APPRAISAL OF ITS PROPERTY MADE AND FOUND THAT THE VALUE WAS APPROXIMATELY \$40 MILLION. ANOTHER SOLUTION WOULD BE TO HAVE THE GOP PURCHASE 49 PERCENT OR MORE OF THIS PROPERTY IN DOLLARS PAYABLE OUTSIDE PORTUGAL. THE NEW COMPANY COULD THEN SELL ITS LAND AND BUILDINGS TO A BANKING CONSORTIUM AND RENT THEM BACK AT LOW INTEREST. THIS SHOULD PRODUCE APPROXIMATELY \$40 MILLION, EIGHTEEN OF WHICH COULD BE USED TO PAY OUTSTANDING DEBTS TO ITT AND THE REMAINDER FOR WORKING CAPITAL. THIS SOLUTION WOULD HAVE TO BE ACCOMPANIED BY SOME RESOLUTION OF THE LARGE OPERATING DEBTS ON THE COMPANIES' BOOKS AMOUNTING TO SOME \$40 OR \$50 MILLION.

5. LUKE SAID THESE PRINCIPLES COULD BE APPLIED TO ANY PORTION OF THE ITT PROBLEM. THAT IS, IF THE GOP WANTED TO BUY THE SHERATON ALONE THAT WOULD BE POSSIBLE AND ITT WOULD BE PREPARED TO ENGAGE IN A MANAGEMENT CONTRACT FOR CONFIDENTIAL

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THE SHERATON HOTEL.

6. SOARES SAID THE ITT PROBLEM WAS BOTH AN UNFORUNATE AND A DIFFICULT ONE. WHILE HE HAD NOT STUDIED THE DOSSIER IT WAS CLEAR THAT WHAT WAS DONE FOR ITT WOULD SET A PRECEDENT NOT ONLY FOR FOREIGN COMPANIES BUT ALSO FOR DOMESTIC COMPANIES. THE GOP COULD HARDLY DO LESS FOR NATIONAL COMPANIES THAN IT DID FOR FOREIGN COMPANIES. PORTUGAL HAD GONE THROUGH A REVOLUTION IN WHICH EVERYONE HAD SUFFERED GREAT LOSSES AND THE PRESENT GOVERNMENT WAS TRYING TO RESTORE A NORMAL ATMOSPHERE. THE GOP WISHED ITT TO STAY, BUT IT HAD PROBLEMS WITH THE CONCEPT OF STATE INTERVENTION. THE PRESENT POLICY WAS TO RETURN AS MANY FIRMS AS POSSIBLE TO THE PRIVATE SECTOR. "WE DON'T WANT TO COLLECTIVIZE, TO THE CONTRARY WE WANT TO GIVE GUARNATEES TO PRIVATE INDUSTRY."

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7. SOARES NOTED THAT OVER ITS 44 YEAR HISTORY IN PORTUGAL ITT HAD MADE BOTH PROFITS AND LOSSES (LUKE INTERJECTED THAT ALL BUT \$4 MILLION OF THE PROFITS HAD BEEN PLOWED BACK INTO THE LOCAL COMPANIES). THE PAST TWO YEARS HAVE BEEN DIFFICULT AND EVERY COMPANY HAS SUFFERED LOSSES. THIS IS A RISK A COMPANY RUNS, AND IT CAN HAPPEN IN ANY COUNTRY. IF THE GOP ACCEPTS A POLICY OF INDEMNIFYING LOSSES FOR ITT IT WILL HAVE TO DO SO FOR EVERY OTHER COMPANY AND THE TREASURY WILL QUICKLY GO BROKE.

8. SOARES ACKNOWLEDGED, HOWEVER, THAT THIS WAS AN EXTREME WAY OF PUTTING THE ISSUE. HE SUGGESTED A SOLUTION BASED ON THREE CRITERIA:

A. ITT WOULD CONTINUE IN PORTUGAL.

B. ITT COMPANIES WOULD BE ASSURED OF THE NECESSARY CONDITIONS TO OPERATE, INCLUDING LAYING OFF EMPLOYEES IF NECESSARY.

C. THE AMOUNT UNDER DISPUTE WOULD BE NEGOTIATED SEPARATELY.

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9. LUKE RESPONDED THAT ITT HAD ALREADY INVESTED \$55 MILLION IN PORTUGAL AND WAS NOT INCLINED TO PUT IN ANY MORE MONEY UNTIL IT WAS PAID THE \$18 MILLION IT WAS OWED BY ITS

SUBSIDIARY COMPANIES. (SOUSA GOMES COMMENTED ASIDE THAT THERE WAS SOME QUESTIONS ABOUT INTER COMPANY BILLING IN ARRIVING AT THIS FIGURE, BUT HE WOULD NOT PURSUE THESE NOW.) HOWEVER, IF THE COMPANY WAS REIMBURSED HE SAW A POSSIBILITY THAT ITT WOULD MATCH PORTUGUESE GOVERNMENT MONEY FOR INVESTMENT IN ITT COMPANIES.

10. LUKE REFERRED TO INCREASING DIFFICULTIES HE HAD WITH ITT BOARD, AND WHICH WERE AGGRAVATED BY MOURA VINCENTE LETTER. SOARES WAS OBVIOUSLY UNFAMILIAR WITH MOURA VINCENTE LETTER WHICH HE TOLD LUKE TO IGNORE. HE ASKED LUKE TO CONVEY TO HIS BOARD THAT THE GOP HAS THE POLITICAL WILL TO SOLVE THE ITT PROBLEM, BUT THAT THE BOARD MUST UNDERSTAND THE DIFFICULTIES PRESENTLY FACED BY THE GOP AS IT TRIES TO DEAL WITH MANY SIMILAR PROBLEMS, PROBLEMS NOT OF ITS MAKING.

11. SOARES AND SOUSA GOMES SAID THAT THEY WOULD PRESENT A PROPOSAL THAT WOULD LAY THE BASIS FOR A SOLUTION WITHIN A REASONABLE PERIOD, SAY FIFTEEN DAYS, ON TWO ASSUMPTIONS:

A. ITT WILL CONTINUE IN PORTUGAL, AND

B. THERE WILL BE THE LEAST AMOUNT OF STATE INTERVENTION POSSIBLE.

SOUSA GOMES NOTED THAT THE STATE HAD WAYS OTHER THAN DIRECT OWNERSHIP TO ASSIST, SUCH AS EXTENSION OF CREDIT FACILITIES. LUKE DID NOT OBJECT TO THE ASSUMPTIONS AND AGREED THAT HE WOULD EXAMINE THE GOP PROPOSAL. HE RETURNED TO US JAN 19 AND WILL WAIT TILL HE HEARS FROM EMBASSY BEFORE RETURNING.

12. COMMENT: PRIOR TO LEAVING PORTUGAL, LUKE INDICATED THAT HE WAS QUITE PLEASED WITH HIS CALL ON THE PRIME
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MINISTER AND SOUSA GOMES. THE MEETING APPARENTLY WAS SUFFICIENT TO OFFSET HIS DISTATEFUL ENCOUNTER WITH TRIGO DE MORAIS AND MOURA VINCENTE THE PREVIOUS DAY. HE CONCEDED, IN FACT, THAT GOP DOES HAVE COMPLEX PROBLEMS AND PROBABLY CANNOT RESPOND TO HIS PROPOSAL WITHIN FIFTEEN DAYS. WE CONCUR WITH THIS ASSESSMENT. EVEN GRANTING THAT PRIME MINISTER AND SOUSA GOMES GENUINELY WISH TO RESOLVE ITT CASE, THEY WILL HAVE DIFFICULTY ORGANIZING A TECHNICAL TEAM AT THE MINISTRY OF INDUSTRY THAT IS CAPABLE AND WILLING TO FORMULATE A RAPID, REASONABLE COUNTER-PROPOSAL.
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